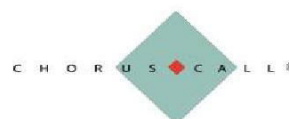




“Sobha Limited  
Q4 FY2018 Results Conference Call”  
May 21, 2018



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**Moderator:**

Ladies and gentlemen good day and welcome to Sobha Limited Q4 FY2018 Results Conference Call hosted by SBICAP Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mathew from SBICAP Securities. Thank you and over to you Sir!

**Sandeep Mathew:**

Very good afternoon everyone. We are very happy to have with us today the management of Sobha Limited. The management represented by Mr. J.C. Sharma, Vice Chairman & Managing Director, Mr. Subhash Bhat, Chief Financial Officer, Mr. Ramesh Babu, VP - Finance, Mr. Vigneshwar Bhat, Company Secretary and Compliance Officer and Mr. Bala Murugan, Investor Relations, VC&MD's Office. Now hand over the call to Sharma Ji for opening remarks. Over to you Sir!

**J.C. Sharma:**

Good evening everyone. We are pleased to connect with you today post declaration of our audited financial results for the fourth quarter and FY2017- 2018 ended March 31, 2018, so it is concall hosted by SBICAP Securities. Thank you Sandeep for doing it.

We have already shared the details of our operational update of the company in the first week of April 2018. The investor presentation based on the financial results adopted by the board can be downloaded from our website.

As you are aware that the last financial year, which had gone by has been a historic financial year from our sector's perspective. The year began first the trauma of the demonetization and we had to also transition to RERA era as well as, we had to adjust to the GST requirements. This somehow, did affect most of the operational performance of the most of the real estate companies, But in our case, you must have noticed that every quarter we kept on improving on all our parameters and we have shown steady growth in our residential space across all product categories supported by equally strong growth in our contract and manufacturing verticals. So more or less what we have been able to demonstrate that, when the pricing power was not there very much, when the market had shown some kind of a headwind we had gone ahead without launching new projects in the first three quarters by selling our existing products, collecting money, also executing projects for our clients in the contracting and manufacturing division, adjusted to the statutory requirement as far as RERA was concerned, adjusted to the GST requirement and could come out with a satisfactory performance where without increasing in the price due to some operational leverage we could show improvement in our overall profitability and could sustain and maintain our EBITDA margin PBT and PAT.

We believe that while the kind of a headwind, which was witnessed in the last financial year, is not that severe, but still the industry as a whole continues to suffer from some kind of demand stagnation and new launches are still not very many. In this environment we still feel that with the kind of new product launches we have geared for ourselves and the kind of visibility we have in our contract and manufacturing division this coming financial year also we should be doing better than what we have achieved in the last financial year both operationally and financially. One of the good notable points what we have also noticed is that, whatever we have sold, we had collected more or less that kind of money from our customers including in contract and manufacturing. First time ever we collected 3000 Crores plus, which helped us to bring down our interest cost and also we have been able to bring down our interest rate, which stood at 9.39%.

Going forward we believe that while the banks have started increasing this cost, we hope to bring it down further by 15 to 20 basis points more. As far as the guidance was concerned we deliberate it, but the board was of the opinion we are looking at this kind of a current environment, as we need not have to commit ourselves to some specific numbers. We have not accept that our revenue growth

and our profitability growth in this financial year with 2018. Now I hand over to our CFO, Subhash Bhat to talk more about the integrity of the financial operations.

**Subhash Bhat:**

Thanks Sharma Ji. We are pleased to report that we have achieved the highest ever revenue for the quarter as well as for the full year that is FY2017-2018 and this all backed by very good operational performance across all the categories and across all the regions that we are operating. We also feel this reflects a confidence of our customers in the brand Sobha in specially the post RERA era.

Coming to the revenue and profit for FY2017-2018. Revenue for the year FY2017-2018 stood at 28.37 billion, which was up by 24%, real estate contributed 20 billion, which is 70% of the topline and the contract and the manufacturing business contributed the remaining 7.86 billion.

Real estate and contractual revenues were up by 34% and 4% respectively. EBITDA for the year stood at 5.69 billion and the PBT came in at 3.17 billion. EBITDA margin remains stable at 20%, PAT was seen at 2.16 billion, which was up 35%.

Coming to specifically the fourth quarter numbers that is for Q4 FY2017-2018 revenue for the fourth quarter stood at 7.89 billion, which was higher by 31% as compared to the corresponding period last year and sequentially it was 13% up. Real estate contributed 5.01 billion, which gave 64% of the topline and contracts and manufacturing contributed 2.68 with the balance 196 million coming in from other income.

EBITDA for the quarter stood at 1.56 billion and PBT at 907 million. Profit after tax came in at 654 million, which was higher by 40% compared to year-on-year and 22% on a sequential basis. During the quarter two projects mainly Sobha Clovelly and one wing of Sobha Dream Acres reach a revenue recognition threshold during the year and revenue recognized was Rs.695 million. Coming to the cash flow as Sharma Ji mentioned this year at the end of the quarter we had the highest collection both in real estate and contract verticals. For the full year 2017-2018 our total collection stood at Rs.30.08 billion, which is higher by 24% as compared to the previous years, real estate collection stood at 20.93 billion and the contract and manufacturing collection came in at 9.15 billion.

We generated a net operating cash flow of Rs.3.75 billion after meeting interest and tax expenses. Specifically for Q4 cash inflow during the fourth quarter was Rs.9.11 billion, which was higher 31% on year-on-year basis and 35% sequentially. Real estate collections during the quarter stood at 5.98 billion and contract and manufacturing came in at 3.13 billion. We generated net operating cash flow of Rs.1.6 billion after meeting interest and tax expenses during the quarter. This is the eleventh successful quarter our company has generated net operating positive cash after meeting the financial outflow.

This robust collection has helped us to bring down our debt by Rs.1.28 billion during the fourth quarter itself. Debt equity came in at 0.79 as on March 31, 2018. We have managed to further bring down our cost of borrowing at end of fourth quarter to 9.39 billion. This is the lowest average rate achieved by the company ever since its inception.

Coming to the performance highlights for FY2017-2018 as we had communicated during the first week of April 2018, we sold 3.63 million square feet for the financial year 2017-2018 with a total value at Rs.28.62 billion, which Sobha share of sales coming at 24.22 billion. Annual sales volume and value both were up 21% and 42% respectively.

During the fourth quarter the company has achieved new sales volume of 1.02 million square feet valued at Rs.8.12 billion of which Sobha share came in at 6.56 billion. Sales volume and value both were up 40% and 46% respectively during the current quarter as compared to the corresponding quarter last year and 9% and 8% as compared to the sequential quarter of this year.

During the year we completed five regional real estate projects and eleven contractual projects visioning to a total area of 5.8 million square feet. In addition to this 2.68 million square feet of real estate projects were completed, and NOC was applied for the same during the year.

Coming to the contracts and manufacturing business FY2017-2018 was one of the best performance for coming years of contract and manufacturing verticals. Total revenue from contract and manufacturing for the full year came in at Rs.7.86 billion, which is up by 4% as compared to the last year. Contract verticals contributed Rs.4.53 billion and manufacturing verticals Rs.3.33 billion of this. Also this vertical achieved best ever collection both annually and on a quarterly basis. Total collections for 2017-2018 stood at 9.15 billion, which was higher by 26% as compared to the previous year. Contract vertical achieved 5.38 billion and manufacturing division delivered 3.75 billion of this.

As of end of March 2018 our contractual unbuild value stood at Rs.17.4 billion this is one of the highest ever order book that Sobha has achieved. We are also pleased to inform that the company has bagged new contractual order during the first quarter of the current financial year, which is FY2018-2019 for constructing Azim Premji University campus at Bengaluru. The total order value of this is 5.63 billion. The company has planned to launch about six to eight new projects across our existing locations and also as communicated earlier the company is working out on various new geographies and new opportunities. A step in this direction was our foray into the Gujarat's residential market with GIFT City, transaction is targeted to be launched in the current financial year.

Also the board has recommended a dividend subject to shareholders approval at the regime of Rs.7 per equity share. Thanks. We will request now the participants to put forward their questions.

**Moderator:**

Sure sir. Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abhishek Anand from JM Financial. Please go ahead.

**Abhishek Anand:**

Good afternoon sir and congratulations on a very good set of numbers. Sir my first query will be with regards to the Bengaluru market, sir it has been some time since RERA has been implemented firstly would like to listen to you how the implementation has been and whether some of the unorganized guys have moved out of the market how have been the first 9 to 10 months and secondly has the supplier situation now improved with most of the RERA bottlenecks being taken care of?

**J.C. Sharma:**

Abhishek it is like this, right now still theoretically speaking, since the demand velocity is quite low vis-à-vis Bengaluru potentials what we have been doing five, six years back 45000 to 50000 units a year and given to understand now it has come down to 20000 to 25000 units a year. So there is a slowdown in the demand, at the same time there has been lots of ongoing projects and thus market estimates that the ongoing inventory in the Bengaluru market ranged between 70000 to 100000 units so that kind of an overhand still exist, but when we look at the ground level practically speaking from the progress point of view and the market has its own ability to discern whether this project has been there for how long whether likely to be completed or not from that perspective more or less, even if you have been registered because we were an ongoing project if we stays uptake of those developers is not there and they are not launching new projects. The number of SKU participants in our sector in Bengaluru market has come down maybe according to my rough estimate by almost 50% to 60%, the remaining 30%, 40% people not right now active at least they may come back tomorrow, but they are not active, so that is where we see as organized player a kind of an opening where we believe that we can continue to gain market share even in this low velocity environment with this 2.6 million square feet and the last

quarter was one of the better quarters among many quarters. This year also we believe that Bengaluru market should be outperforming in our scheme of things because lot many new projects have been planned two projects have already been approved, Hadosiddapura project, Bellahalli project had been approved, one joint development also we had taken so we believe that the launch had been lined up from the next quarter onwards in our case we should be doing relatively better than what we have achieved in the last financial year.

**Abhishek Anand:**

So sir just to delve on that our launch pipeline if you could give us some more clarity so you mentioned Devanahalli and one more project, which has been approved?

**J.C. Sharma:**

What I mentioned was that there is one project Hadosiddapura, where the redevelopment plan has been approved, the building plan is yet to be approved (a), (b) that affordable housing development plan has been approved, the building plan is to be approved. Then there is one project on old Madras road, which also where the building plan has also been approved we have to make application for the RERA. Then in Mysuru, one plotted development we have already applied for the RERA, so these are the four projects, which are at the advanced stage from the launch perspective and there are four more projects, which we should be able to launch by the end of this financial year.

**Abhishek Anand:** So definitely higher than what we launched?

**J.C. Sharma:** 100% significantly higher.

**Abhishek Anand:**

Secondly will be on the collections fee, which we did specially on the real estate operations we collected some 600 Crores as historically our run rate has been closer to 500 Crores so is this related to RERA registration specifically the demonetisation?

**J.C. Sharma:**

No, it is nothing related to the RERA part. What we need to understand is that we did not have many projects for launch so what I was telling that last year we have sold most of the inventory, which was existing inventory where the building helped us and this year more or less there will be the existing inventory and there will be new inventory also, but still collections we believe that will be higher than what we have achieved in the last financial year.

**Abhishek Anand:** So around 600 per quarter is the run rate we should be looking at?

**J.C. Sharma:**

Sometimes we do not talk and go by the quarter wise basis we say yes the big picture is we should be doing better at this financial year on all the fronts what we have talked about so on the volume front, on what you call the collection front and on the profitability front and on the launches front we should be doing better this financial year.

**Abhishek Anand:**

Just trying to understand your strategy behind entering into new market like Gujarat or Gift City

specially when we know that Bengaluru market there is of course potential of you gaining market share in that particular market, so what is the strategy behind entering a market like Gujarat?

**J.C. Sharma:**

See real estate what we have seen primarily as we do not get clear lends, primarily do not have an approval process streamline despite whatever assurances we are getting from multiple sources this GIFT City whatever it is we know it has been in progress for now more than 10 years where some kind of perfection had started coming of late with almost 16 million square feet of the land out of 62 already given to multiple developers and you have already now more than 7000 people working there physically and every month 300 to 400 new employees are joining. First time when they have allotted this lend they have given a concession that this apartment can be sold to anybody till then they had a constraint that they can only sell this apartment to the people who work in the GIFT City. So first 5000 units they have made it free, so looking at that part looking at the FSI cost, looking at the payment has to be made over a staggered period of four years we thought it is a good opportunity to deal with our sales and try after new market investment is not going to be that large and we would have entered into a good growing market from an experiment point of view.

**Abhishek Anand:** And this will be all our construction no outsourcing or anything?

**J.C. Sharma:** Never we will never do that part.

**Abhishek Anand:** Perfect. I will join back in the queue. Thank you so much.

**Moderator:**

Thank you. The next question is from the line of Punit Gulati from HSBC. Please go head.

**Punit Gulati:**

Just continuing a bit more on the new launches so what is the total million square feet that you expect to launch next year?

**J.C. Sharma:**

Subject to all approvals and registrations in place we are targeting 8 million square feet of new launches.

**Punit Gulati:** 8 million?

**J.C. Sharma:** Yes.

**Punit Gulati:**

Again carrying forward with the collection why is the run rate higher if it is not because of I could not quite understand that if you can give more colour?

**J.C. Sharma:**

That we never said that was the question that various speakers exposed see whether the RERA helped in improving the collection in the last quarter, the RERA has got nothing to do with the selection part.

**Punit Gulati:** So is it more to do with the project mix or is it just higher realization?

**J.C. Sharma:**

You can say yes, more to do with the way the billing pattern emerge the collection pattern follows that.

**Punit Gulati:**

What is the expectation of project completions for next year, how many million square feet do we expect to complete?

**J.C. Sharma:**

In the real estate front it is closer to about 4 million plus Punit. After the RERA we can officially think that the completion of NOC. From our internal construction point of view we complete the project and we apply thoroughly, officially we declare once we receive.

**Punit Gulati:**

And you also gave good colour on the market just wanted to get some sense if you are saying any signs of realization improvement at the market level as well or not?

**J.C. Sharma:**

It happen sooner than what we have been expecting so far, but looking at the pain, looking at the leverage, looking at the supply side kind of thing while the actual demand clarity and comfort is far greater it is the pricing comfort I think still we are a bit away.

**Punit Gulati:** Do you have some sense of how long it will take for the pricing to come back?

**J.C. Sharma:**

I cannot say sometimes in India it happens certainly, but one can say with certainty that the way the input cost increase it is happening both on the labour side as well as on the material side the commodity prices had gone up in the last two-and-a-half quarters to be precise. Otherwise also it will become unviable at the current prices for the new guys who launch the project and compete with the existing one.

**Punit Gulati:**

But is it land cost coming down that can offset some bit of this construction cost increase?

**J.C. Sharma:**

Land cost maybe opportunistically here and there, but still I do not foresee land prices per se coming down in the areas where the demand exists.

**Subhash Bhat:**

No Punit in the regions that we operate land does not constitute significant portion of the overall cost.

**Punit Gulati:** But it will still be about at least one fourth to one third is not it?

**Subhash Bhat:**

Yes but since even if it is a 10% improvement you are talking about 3% turnover of this.

**Punit Gulati:**

Lastly if you can give more colour on what is really happening on the contractual business that seems to be doing quite well both on revenue and on cash flows what is driving this new leg of growth here?

**J.C. Sharma:**

As such nothing like when the Infosys jobs were there we use to focus on one customer and we use to keep them happy relatively speaking in a better manner. Now we find that the similar kind of a comfort with the other existing contracts is happening so Biocon is giving us new jobs, LuLu keeps giving us new jobs right and now we have worked Azim Premji as well, so we have got good clients that is on the constructing side who have been supporting us in a big way. On the manufacturing side we have become relatively more aggressive both our interior division as well as metal working and glazing division that you call back to cost both have been them have done record performances and they have got again a good visibility. So our belief this year definitely looking at the visibility part with the contract and manufacturing division will again show a very good improvement on this higher base.

**Punit Gulati:**

On the manufacturing side I thought you are largely supplying to yourself only right or is it that you have added new customers outside also?

**J.C. Sharma:**

100% of our own construction activity is like what Bala was telling before we are slightly cautious with completing and other project, which will be taking up, everything is in house nothing not shown at billing what we are talking about is the external billing where now more and more clients they are coming forward and giving jobs to the manufacturing division and on the contracting side with existing customers they keep giving us whatever jobs they are getting when they grow so with their



growth we are also growing.

**Punit Gulati:**

So if you can give more colour on this side on the manufacturing who are these new customers?

**J.C. Sharma:**

See they are 5 Crores, 10 Crores, 15 Crores kind of a customer, but yes they did pay on time and the jobs get completed also on a timely basis.

**Punit Gulati:** And this is largely interior work for their billings.

**J.C. Sharma:**

Interior in those, normally we do not do the interior part we do the supply the doors or we supply the kitchen and the cabinet to our customers primarily as far as interior dividend is concerned. As far as part is concerned in our presentation also you might have seen one building, which is fully covered with glass facade and trees being shown in our investor presentation, which is one of the unique job our division has done we collected more than Rs.40 Crores so these kind of works also we are getting.

**Punit Gulati:** You are talking about the Lulu Cyber Tower II?

**J.C. Sharma:** Yes.

**Punit Gulati:**

So that is a contractual part on the interior, which is kitchen and doors largely so it is the smaller developers to whom you are supplying or is it what kind of guys are we?

**J.C. Sharma:**

Apart from some developers and the customers there is no small, no big the orders that we get on those we supply. Big developers are also there, smaller developers are also there. Similarly the cut stones, pavers and blocks also we are supplying to most of the developers.

**Punit Gulati:** Great. That is all from my side. Thank you so much.

**Moderator:**

Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:**

J.C. sir on the 8 million square feet new launches just for your clarification is this total size of the project or is the area to be released?

**J.C. Sharma:**

This is the total size of the project where plants will be approved and what we are doing now that we will be registering with the authority the whole project as well. We will be completing the projects on a trade basis and we will have different times to do, but the registration we will be doing at a time.

**Sameer Baisiwala:** And so what will be the area that you will be releasing this year?

**J.C. Sharma:**

Area so far not detailing them, but still maybe relatively speaking almost 3 to 4 million square feet definitely will be released.

**Subhash Bhat:**

So Sameer our plan of releasing tower-by-tower based on how the sales have been done in the area release will still continue.

**Sameer Baisiwala:**

Sir is there any change in the selling philosophy, which is to sell as you build or do you also want to keep some inventory at the much higher inventory that couple of other developers are now not trying to do?

**J.C. Sharma:**

Not Sameer Ji we will continue to keep selling while we are building, sometimes there can be some small inventory left out not by design but by default or inability to sell you can say. But otherwise, we will keep selling so as things stand today also as on March 31, 2018 147 Crores worth of finished stock inventory was there 400000 square feet out of that 250000 square feet is property development and 150000 square feet is the apartment unsold inventory, so we are quite comfortable that way.

**Sameer Baisiwala:**

And sir from the time you got all the approvals and the ground breaking happens till the time the delivery happens what is the timeframe now and is it very different from what it was in the recent past?

**J.C. Sharma:**

We have not think the timeframe what we used to offer to the customers earlier, they would not accept in case of the Dream Acres that we cost we are delivering it is happening subject to NOC almost in two years' time in almost all other cases we have taken three-and-a-half years or so on an average.

**Sameer Baisiwala:**

And sir final question in your outlook of fiscal 2019 maybe you did not make a mention on the balance sheet how should we think about the net gearing and new project acquisition over next one or two years?

**J.C. Sharma:**

See. Mainly we have been clear, the debt equity should be kept around 0.8 that is what in the last quarter con call we have communicated when it was 0.86 it has been brought down to 0.8, and should be continuing with this kind of a debt equity looking at the number of opportunities what we are having and we will be also completing this year at the St. Mark's Road 400000 square feet of the developable area mall in the next quarter, so all these things will be met with this 0.8 debt equity part.

**Sameer Baisiwala:** And on new project acquisition on new geographies to enter?

**J.C. Sharma:**

Yes unfortunately this GIFT City happens faster. Some projects definitely we are looking at in Hyderabad, Trivandrum and one more new city also we are planning to add this is something happens in the next quarter we should be giving the clarity, which is the tier II city.

**Sameer Baisiwala:** Thank you so much.

**Moderator:**

Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

**Adhidev C:**

Thanks for the opportunity. Sir just my question is now on reported margin we have been below 20% over last couple of years with higher realizations, which we have seen in the real estate segment so for next two years give some guidance on sort of reported EBITDA margin we could see?

**J.C. Sharma:**

See Adhidev whatever this margins we have seen, these are all the legacy margins on the project, which had started almost two years, three years, four years back, point number one. Point number two, in the last six months unfortunately there has been an increase in the input cost almost all the commodity prices they had gone up. Point number three, you may be not observing, but in India this blue collared employment, the way this government is going after implementing the minimum wages, the provident fund coverage and other benefits with the cost per labour continues to keep rising. On top of this we have been planning almost 3% as a thumb rule to what is our sales and marketing related activities. We felt that looking at this environment we need to be more aggressive, we need to have more compliance at all levels and now we had gone up to some quarter 5%, some quarter 4% sort of a thing on the sales and marketing side so while the product mix has been good we have succeeded in selling products across all sides particularly and in at least key regions relatively much better. The cost also will require to be absorbed, but could do it within the

parameters what we have set out for ourselves. Is the commodity prices become softer or remain stable we are confident that the margins again can only go up from these levels as things stand to that.

**Adhidev C:**

So sir just to clarify have we booked any like cost overruns in this year or earlier you used to give a disclosure if any projects are going over budget?

**J.C. Sharma:**

No that is where we have been careful in estimating and putting this kind of cost upfront while meeting the estimates we did at the time of last division.

**Adhidev C:** Sir then any further update on our APMC commercial project?

**J.C. Sharma:**

That also some progress has happened, in this year definitely we should be able to provide clarity about that.

**Adhidev C:**

So then the debt equity we are mentioning the target excludes any possible capex on this project right?

**J.C. Sharma:**

Right now we do not have that kind of a sufficient investment for the commercial **space and right** now we remain reasonably confident that we have little bit of a headroom to grow on our volumes, on our cash flows and on our profitability so we believe that this debt equity should be sufficient enough to take care of our commercial as well as real estate and the constructing related activities.

**Adhidev C:**

And just my last question on the contractual order book this 1700 Crores plus 500 Crores like 2200 Crores of order book we have is it executable over what period?

**J.C. Sharma:** It will take a minimum three years to execute.

**Adhidev C:**

So it should be sustaining basically the revenue run rate we have done in the previous year?

**J.C. Sharma:**

Of course yes and still there is a small scope despite not going out in a big way to gain the market share in this field, we have been quite through this. That is why our margins are industry leading margins and our collections are on the basis of our collections in the constructing sector any company can come about.

**Adhidev C:** Sure sir. That is helpful. All the best.

**Moderator:**

Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.

**Abhinav Sinha:**

Sir on the sales bid that we saw for the fourth quarter itself Bengaluru was doing quite well, but the other cities have slightly lost momentum and going forward how you are looking at this, but specifically on the NCR market also because I think the sales sort of peaked like four quarters back there?

**J.C. Sharma:**

See you have a point, sometimes what happens the products was to be released the composition of the product what is the demand as it emerged directly, so while we have 3 million square feet plus to be sold, to be delivered what we got ourselves really felt within that the larger side apartments had gone faster, so 90% of the larger side apartments had gone in the last quarter itself, but due to the production constraint we cannot simply release because you have to see that the handover and all infrastructure is put in place, these kind of a setback do take place this is basic, but net-net this year we do expect that Gurgaon market should be doing better than what it has done in the last year.

**Abhinav Sinha:**

And in Bengaluru itself the inventory of that higher-end, which was coming mostly in to POCM is it now done?

**J.C. Sharma:**

See more or less the high revenue product from the legacy they had gone when you talk about in Indraprastha, when you talk about Palladian, we talk about Grandeur and the Richmond Road small project they are gone and the hardest with RERA a very large project we will have some of the premium product as well should be launched hopefully by the next quarter so it will be made up and we do not foresee much of a problem.

**Abhinav Sinha:**

But by and large the momentum that we have seen of rising sales now five quarter continuously you think this is maintainable I mean 6.5 billion becomes 7 billion very soon?

**J.C. Sharma:**

Maintainable because we believe that we have performed in a shrinking market as the market expands definitely with the kind of locations and the kind of track record what is getting established we should be doing better there is scope.

**Abhinav Sinha:**

And sir just one question on the contractual side as well so here the area that you have on hand of ongoing projects has been coming down right for some time now while the value is increasing, so are we doing something different?

**J.C. Sharma:**

No it is a good question one is that the manufacturing part what we do the billing happens, but the area does not get added, you understood my point?

**Abhinav Sinha:** Yes.

**J.C. Sharma:**

Then on the constructing side till the structure is not given I am not adding so most of the billing like last year we did on the Infosys the structure part was not there they did not start new software development blocks, or the food court or something of that size. Some visibility is coming in this financial year so hopefully let us see this part also will be there, but net-net yes the visibility is relatively best ever as we are entering into the new financial year on this front.

**Abhinav Sinha:** And are the margins now different here or it is still 12%, 13%?

**J.C. Sharma:**

The margins we live in again a tough environment we are getting margins and more important we are getting the cash faster so the pocket has been on that part then on increasing or improving the margin. Margin improvement happens primarily on efficiency front nowadays than on any other sectors.

**Abhinav Sinha:** Thanks a lot.

**Moderator:**

Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

**Kunal Lakhan:**

Sir my first question was on the land payment front we have done some 360 Crores of land payment this year bulk of which obviously came from your payment for the Kochi land, but I just wanted to understand going forward how should we look at this number especially with now even GIFT City coming into our books?

**J.C. Sharma:**

See GIFT city payment is already made for the year it is not that during the current quarter it is not part of the Q4 and in our investor statement Bala does provide they did almost 70 Crores of requirement like balance payment it will not be required to be paid fully. New opportunities come here and there, we may have to provide for, but in our probability this year that the payout to ask the land will be less than what we have incurred in the last financial year.

**Kunal Lakhan:** Even if you excluded for the one time Kochi land payment?

**J.C. Sharma:** That has done Cochin is 100% done so Cochin has got nothing to do now.

**Kunal Lakhan:**

No what I was trying to say was like excluding Kochi the land payment would be about 200 odd Crores so would the FY2019 outlay would be lower than 200 Crores or it will be lower than 350.

**J.C. Sharma:**

We cannot commit that way that is where you see the best price hike that debt equity under 0.8 and grow your business within that parameter. This 0.8 also is among the lowest debt equity of any real estate company what we are talking about at this point of time. Ours is the only company where the debt has not fixed gone up within last three, four years.

**Kunal Lakhan:**

My second question was on the GIFT City project. We broadly have given us the guidance in terms of the investments going into the project, but overall what could be the revenue that we could generate out of the project and what could be the profitability if you can give some sense?

**J.C. Sharma:**

This is the new market we have to take it. We are launching in the first phase about 450000 square feet 450 apartments under that affordable housing scheme. Even if sometimes in the affordable pricing is on a lower side, but on a percentage basis it will not have any adverse effect or impact on our overall margins and we look at this had an incremental revenue generating exercise with an access to a new and faster growing market. So this will be an experiment, overall impact may not be that great, but somewhere looking at the way the industry is trading we get extra some work for us to grow is what we are looking at from the GIFT City product.

**Kunal Lakhan:**

Sure that is helpful and sir lastly how should we look at your foray in Gujarat will this be a standalone project or will we look at getting into to other cities or we will restrict ourselves to Gandhi Nagar or around that region?

**J.C. Sharma:**

Too premature. As far as GIFT City is concerned GIFT City, Gandhi Nagar, Ahmedabad they may have different pin code postal addresses, but prima facie the market remains the same. This will get a

small overlapping it may happen, but generally speaking it is the same market so that will continue with one market only. Going into the other cities will take time. Once we enter into a particular city our belief has been there to be there for a much, much longer period and that is what we would like to do with this Gujarat market GIFT City as well.

**Kunal Lakhan:** Alright sir. Thanks for taking my questions and all the best.

**Moderator:**

Thank you. The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

**Dhruvesh Sanghvi:**

My name is Dhruvesh Sanghvi. I am participating for the first time on the conference call. Excellent set of numbers sir congratulations. Just wanted to understand on the broader point of view let us say over the next three, four years as you said for example the Bengaluru market from 40000 has probably fallen to 20000 to 22000 apartments where do you see the cities where you are present and is there some degree of confidence that okay in the next five years we can see this easily bouncing of again 40, 45, 50 or may be much higher numbers or some kind of context in that angle in terms of the demand within certain cities?

**J.C. Sharma:**

Dhruvesh good evening it is a good question. See the real estate market in the last four to five years it has not behaved according to the economic requirement of our country. At the same time parallelly that the kind of steps, which has been taken over a period of last three, four years we have not seen in 30, 40 years of this sector cumulatively and in a combined manner. Now the only drawback remains is with the approval prospects, which also in case of like in GIFT City they give approval process that they themselves approve the project it is almost parallel sort of a thing only RERA approval is required. Now that kind of a stage may take another four to five years in India, but we are moving towards that direction and with affordable housing with the PMAY seeing in place with interest cost coming down and the way the grade A of the state and the overall per capita income of the city dwellers has been rising. The way things are panning out and then when you compare Indian market with this back of the contemporary markets in other countries, in other cities we believe rightfully that we have a long way to go and in India also we have seen today that when company has a capacity of 100 million tonnes a steel company has got a capacity of 30 million tonnes so when we are operating in that kind of an environment where both these are the typical inputs, so for our own sector from a consolidation point of view it leaves us hope that our kind of a business model where we can think of scale we can deliver the project we have got the required organizational straight. We have been always delivering but failing every time not been able to achieve either our potential or of the real estate sectors potential. Now post these reforms at least I am personally convinced this that we are on a right track and from now onwards there can be only one trend, which is a good secular sustainable growth in our sector with more focus on the affordable homes where the pricing power will be limited, but it will be more than offset by increased supply, increased demand of that particular product. Now still long way to go when I talk like this, but this is what we believe and preparing ourselves to watch that. Hopefully things should become clear in the next couple of years' time.



**Dhruvesh Sanghvi:**

Great sir and one more question and thanks for answering it in a nice way. One aspect because you are producing your own homes. The kind of costs that you may be going through is already taking, you are basically building a large capacity for yourself and therefore the margins are also to an extent suppressed and if such a scenario comes, which you are envisaging will it leave too much higher operating margins without the corresponding increase in per square feet rate?

**J.C. Sharma:**

Too many ifs and buts will be there while answering this kind of a question. But prima facie that the belief is we do agree that we will carry a much higher carrying cost to operate this organization and as we start selling more, delivering more, executing more, rest the benefit of this operating leverage will start accruing to us. Assuming so many things to happen in a desired manner we operate in a industry where we save first and thereafter we incur the cost and we have to have the best possible estimate to support and we fixed to more or less we are successful in protecting our margin, but prima facie I do agree that as we move forward with the larger volumes the benefit should accrue to us.

**Dhruvesh Sanghvi:** Great so last one any plans for Mumbai entry?

**J.C. Sharma:**

We have been looking at Mumbai also, but still we do not know how to get into it. We hope at some point of time some guys give us a good opportunity.

**Dhruvesh Sanghvi:** Thank you sir.

**Moderator:**

Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:**

Sir just one final, any thoughts on land monetization for fiscal 2019 or maybe a little beyond and do you want to replace your really long dated land bank if something that you can develop in a shorter timespan?

**J.C. Sharma:**

Both are good questions and we are doing our level best to see how do we optimize and achieve these objectives. As far as fiscal year 2019 is concerned the final notification from the Bengaluru Metro Railways for acquiring one land parcel of almost five acres has happened. The compensation amount is yet to be fixed, but hopefully it should materialize in this financial year. As far as the maturing or materializing the other larger land bank parcels, we are working on Nagadenahalli, we have started working on Hoskote as well. Hope to provide some clarity as we move forward, but beyond that I am not in a position to convey anything significant as far as the near future is concerned.

**Sameer Baisiwala:** And anything that you want to sell down this year any big ticket item?

**J.C. Sharma:** As I said that itself to give us good cash flow as and when this matures, but to an extent nothing is there in the pipeline as things went to them.

**Sameer Baisiwala:** And five acres Bengaluru Metro that is a new land acquisition talking about?

**J.C. Sharma:** It was there.

**Subhash Bhat:**

Sameer this is one on the Bannerghatta Road, which Bengaluru Metro issues acquisition notice form, which has been for last probably in one-and-a-half years. There is interest, which is accruing from particular date, which they have issued a notice because they did not want the guidance value to go up, so hopefully as and when it happens it should give us at least 150 to 160 Crores for that five acres.

**Sameer Baisiwala:** Got it. Thank you so much.

**Moderator:**

Thank you. The next question is from the line of Ujwal Shah from Quest Investments. Please go ahead.

**Ujwal Shah:**

Sir can you give us some guidance in terms of your affordable housing foray in Bengaluru and secondly we have seen that most of the topnotch Bengaluru players have actually announced so called affordable housing projects and the range of 50 lakhs, 60 lakhs what kind of potential do you see for the segment in this market and do you see at some point this getting crowded? Thank you.

**J.C. Sharma:** At some point getting crowded?

**Ujwal Shah:** Yes.

**J.C. Sharma:**

See today, if the developers are focusing on a product, which is meant for the larger audience it is only good and then in any market if you see if there are margins there is demand it is likely to get crowded over a period of time. Bengaluru market has always been one of the most competitive environments where we have been managing and maintaining our leadership position for the last 10 years or so. Per se we are not upgrade we understand the technology we have understand the product currently that the largest selling project and the largest ever approved project belongs to Sobha and it has done very well so we per se do not foresee that in a market where the size is bigger than the normal market and the incentives are reasonably well even if it gets relatively crowded it is going to have any other impact on our plan.

**Ujwal Shah:** Right sir so what is our plans in that case over the next two to three years?

**J.C. Sharma:** We already shared that in our previous conversation.

**Ujwal Shah:** Thanks sir.

**Moderator:**

Thank you. The next question is from the line of Vivek Kumar from Bestpals Research & Advisory. Please go ahead.

**Vivek Kumar:**

Hi Sharma Ji this question is regarding the demand for above 1 Crore apartments because we have large part of presales around 70% is from above 1 Crores, how do you see that market shaping now that most of the launches are happening in the affordable part and how do you see that outlook demand for that part of the market?

**J.C. Sharma:**

See we look at housing market like an automobile market or like the motorcycle market sort of things where they have customers across all categories, so the luxury market policy has not shrunk. In India if we look at from other parameters, it is becoming rich and it is becoming more richer sort of a thing and how thing is one such thing where everyone has an aspiration to ensure that see if they get into better location they get into bigger homes that like having one address one home as our grandparents or probably parents used to have it is almost over. So per se we are not worried about as such demand constructing in any segment whatsoever. The issue was that the income growth, that the inflation and the interest rate it was hurting the segment where earlier everybody was addressing those customers. Now among those customers some of them have migrated to the affordable, some of them continues to wait to get into the bedroom larger size products also, so as such we are not worried about this kind of a scenario developing rather we welcome that more and more customers at a younger age they have started coming and buying homes.

**Vivek Kumar:**

So you are confident of maintaining or increasing over the presale that we have done this year given the launches?

**J.C. Sharma:**

Yes we have done the best ever performance as far as Bengaluru market is concerned in the last financial year and this year also we are confident that we should be doing better than that.

**Vivek Kumar:**

So can you throw more light on your business development plans apart from Bengaluru and since you are talking about Hyderabad means are you going to launch this year or are you seriously looking at or it is something that you will consider at some time?

**J.C. Sharma:**

That thing we do not as such discussed on a conference hall serious or not serious if we are not serious we will not be talking. At the same time what we are communicating is that we are very careful, we would like to protect our margins, we would like to identify right location, right pricing and ensure that was within the parameters what we have made up for ourselves and not in a hurry that we need to be there in a particular city next quarter itself.

**Vivek Kumar:**

So even the cash flow part the 375 odd Crores we will be able to do much better this year or maybe able to maintain this?

**J.C. Sharma:**

Yes if performance improve all these parameters definitely will improve.

**Vivek Kumar:**

Thank you very much sir all the best.

**Moderator:**

Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.

**Subhash Bhat:**

We would like to thank everybody who participated in this call and my and Bala's details are there on the investor presentation so if there are any other specific questions that you need to be answered you can reach out to us. Thank you.

**Moderator:**

Thank you very much. Ladies and gentlemen on behalf of SBICAP Securities that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.